

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Capac	County St. Clair
Fiscal Year End June 30, 2007	Opinion Date December 17, 2007	Date Audit Report Submitted to State December 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

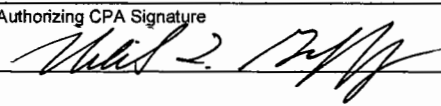
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (248) 844-2550	
Street Address 745 Barclay Circle, Suite 335		City Rochester Hills	State MI
		Zip 48307	
Authorizing CPA Signature 	Printed Name Michael T. Gaffney, CPA		License Number 11010116288

**Village of Capac
St. Clair County, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Village of Capac
St. Clair County, Michigan

June 30, 2007

VILLAGE COUNCIL AND ADMINISTRATION

Mark Klug	President
Debra Hlubic	Council Member
Elizabeth Hargrave	Council Member
Larry Adams	Council Member
Robert Lumbardo	Council Member
Dan Donnellon	Council Member
Brandon Stringer	Council Member
Dennis Collison	Village Manager
Candy Franckowiak	Clerk

Village of Capac

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
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Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2007 on our consideration of the Village of Capac's internal control over the financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls and financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Capac's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 17, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

The Village of Capac's 2007 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts - management's discussion and analysis, the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the Village. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net assets and how they have changed. Net assets, defined as the difference between the Village's assets and liabilities, are one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into two categories:

- **Governmental Activities** - Most of the Village's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, and charges for services provided most of the funding.
- **Business-type Activities** - The Village charges fees to customers to help it cover the costs of certain services it provides. The water, sewer and trash operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes.

The Village has three kinds of funds:

- **Governmental Funds** - Most of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. The Village currently has eight (8) governmental funds.
- **Proprietary Funds** - Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The Village currently has three (3) proprietary funds.
- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Village's operations.

FINANCIAL OVERVIEW (government-wide financial analysis)

The Village has combined total net assets of \$6,347,665. This is an increase of \$526,901 over 2006. Government-type activities comprise \$1,814,086, and business-type activities make up \$4,533,579 of the total net assets. In a condensed format, the table below shows net assets as of June 30, 2006 and 2007:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Assets				
Current assets	\$ 771,750	\$ 752,704	\$ 67,446	\$ 263,661
Restricted assets	-	-	374,116	550,128
Other assets	-	-	50,324	42,734
Capital assets	<u>895,417</u>	<u>1,383,556</u>	<u>5,913,387</u>	<u>7,805,958</u>
Total assets	<u>1,667,167</u>	<u>2,136,260</u>	<u>6,405,273</u>	<u>8,662,481</u>
Liabilities				
Current liabilities	36,450	165,360	262,839	390,018
Long-term liabilities	<u>164,441</u>	<u>156,814</u>	<u>1,787,946</u>	<u>3,738,884</u>
Total liabilities	<u>200,891</u>	<u>322,174</u>	<u>2,050,785</u>	<u>4,128,902</u>
Net Assets				
Invested in capital assets -				
Net of related debt	738,764	1,222,757	3,834,401	3,781,579
Restricted	640,201	457,381	374,116	550,128
Unrestricted	<u>87,311</u>	<u>133,948</u>	<u>145,971</u>	<u>201,872</u>
Total net assets	<u>\$ 1,466,276</u>	<u>\$ 1,814,086</u>	<u>\$ 4,354,488</u>	<u>\$ 4,533,579</u>

The Village's governmental activities experienced an increase in net assets of \$347,810. The business-type activities experienced an increase in net assets of \$179,091.

The following table shows the changes in net assets for 2006 and 2007:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Revenue				
Program revenue:				
Charges for services	\$ 38,175	\$ 12,134	\$ 603,378	\$ 615,363
Operating grants and contributions	151,117	120,632	-	-
General revenue:				
Property taxes	490,364	511,968	107,640	113,164
State-shared revenue	217,130	217,681	-	-
Other unrestricted revenues	42,606	39,812	-	-
Unrestricted investment earnings	12,786	20,719	8,943	14,309
Rents	-	13,000	-	-
Gain on sale of asset	<u>16,990</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>969,168</u>	<u>935,946</u>	<u>719,961</u>	<u>742,836</u>

The following table shows the changes in net assets for 2006 and 2007 - continued:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Program Expenses				
General government	\$ 171,431	\$ 140,826	\$ -	\$ -
Public safety	294,622	334,942	-	-
Public works	243,905	222,402	-	-
Economic development	34,008	28,620	-	-
Recreation and cultural	18,163	25,455	-	-
Other activities	39,457	52,640	-	-
Interest on long-term debt	5,600	16,827	-	-
Water	-	-	221,369	298,613
Sewer	-	-	250,560	248,709
Trash	-	-	78,592	88,183
Total program expenses	<u>807,186</u>	<u>821,712</u>	<u>550,521</u>	<u>635,505</u>
Changes in net assets before transfers	161,982	114,234	-	107,331
Transfers between funds and component units	<u>34,648</u>	<u>250,869</u>	<u>54,000</u>	<u>71,760</u>
Changes in net assets	<u>\$ 196,630</u>	<u>\$ 365,103</u>	<u>\$ 233,440</u>	<u>\$ 179,091</u>

Governmental Activities

Revenues for governmental activities totaled \$935,946 in 2007. Of this amount, \$511,968 or 55% was received from taxes followed by State Shared Revenue of \$217,681 or 23%.

Business-type Activities

The Village has three business-type activities, sewer, water, and trash. The Village provides water to the Village users from the Village wells. The Village provides sewage disposal services with a Lagoon system. Trash services are contracted by the Village. For the year ended June 30, 2007, the sewer, water, and trash funds had a net increase (decrease) of \$62,948, \$124,936, and \$(8,793), respectively.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund had a total fund balance of \$85,802. When the reserved fund balance of \$22,598 is removed, the General Fund had an unreserved/undesignated fund balance of \$63,204. This is an increase of \$53,161 from the prior year.

The remaining major governmental funds reported a change in fund balance during the year and had a fund balance at June 30, 2007 of the following:

	<u>Increase in Fund Balance</u>	<u>Fund Balance</u>
Street Scape	\$ 25,001	\$ 52,129
Police	14,607	21,023

The other major funds are the Sewer, Water, and Trash Funds, which have been discussed earlier.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Village Administration and Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. The original General Fund estimated expenditures and transfers for the year were \$711,231 and the final budget estimated expenditures were \$731,600 for a difference of \$20,369. The most significant variations from original to final budgets and final budget to actual are as follows:

General Fund

- The final budget reflected an increase to the Contingencies expenditure activity of \$33,891 mainly due to planned expenditure reductions in other activities.

Other Funds

- The Village recorded vehicle capital lease proceeds revenue and a corresponding expenditure in the Police Fund for \$27,013 which resulted in a budget overage.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

The Village had \$9,189,514 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2007. The investment in capital assets includes land, buildings and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g., roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the Village added approximately \$2,562,680 of capital assets before taking into account depreciation, \$551,302 in the governmental activities and \$2,011,378 in the business-type activities. The additions in the governmental activities are primarily due to street and sidewalk improvements. The additions in the business-type activities are primarily due to a water system improvement project the Village began in the summer of 2006. Depreciation for the year was \$63,163 in the governmental activities and \$118,807 in the business-type activities.

The following table shows the capital assets at June 30, 2007:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 102,111	\$ 39,000
Land improvements	86,779	-
Buildings and improvements	654,668	-
Machinery and equipment	235,258	56,376
Vehicles	273,258	-
Infrastructure	72,019	-
Utility systems	-	8,806,594
Construction in progress	<u>632,270</u>	<u>2,486,562</u>
	2,056,363	11,388,532
Accumulated depreciation	<u>(672,807)</u>	<u>(3,582,574)</u>
	<u>\$ 1,383,566</u>	<u>\$ 7,805,958</u>

Long-term Debt

At June 30, 2007 the Village had \$4,110,783 in long-term debt compared to \$1,952,387 at June 30, 2006. During the year the Village had drawn down \$2,315,000 of funds related to the USDA Rural Development loan program for water system improvements. The following table shows the long-term debt at June 30, 2007:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Bonds/Loans	\$ -	\$ 3,940,000
Notes/Contracts Payable	160,799	-
Compensated Absences	<u>9,100</u>	<u>884</u>
	<u>\$ 169,899</u>	<u>\$ 3,940,884</u>

Additional information on long-term debt can be found in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Village of Capac, as with many other cities and villages, continues to see little or no revenue increases. We continue to make cuts and expect to have a balanced budget. We have raised both water and sewer rates the last two (2) years to allow us to pay the bond issue to expand the water system and build an arsenic treatment plant.

CONTACTING THE VILLAGE

This financial report is designed to provide general overview of the Village's finances to our residents and other interested parties in understanding the Village's financial condition. If you have questions about this report or need additional financial information, please contact the Village Manager at 810-395-4355, or in writing to the same, 131 North Main Street, Capac, Michigan 48014.

BASIC FINANCIAL STATEMENTS

Village of Capac

STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 492,116	\$ 127,428	\$ 619,544	\$ 25,167
Receivables	56,247	132,448	188,695	-
Investments	84,878	-	84,878	-
Restricted Assets				
Cash and cash equivalents	-	249,232	249,232	-
Investments	-	163,946	163,946	-
Due from other funds	-	37,933	37,933	-
Deposits with county	-	99,017	99,017	-
Due from other funds	90,758	-	90,758	-
Due from component unit	100	-	100	-
Prepays	28,605	3,785	32,390	-
Total current assets	752,704	813,789	1,566,493	25,167
Noncurrent assets				
Capital assets	2,056,363	11,388,532	13,444,895	9,783
Accumulated depreciation	(672,807)	(3,582,574)	(4,255,381)	-
Deferred charges	-	42,734	42,734	-
Total noncurrent assets	1,383,556	7,848,692	9,232,248	9,783
TOTAL ASSETS	2,136,260	8,662,481	10,798,741	34,950
LIABILITIES				
Current liabilities				
Accounts payable	76,680	76,314	152,994	-
Accrued liabilities	4,092	-	4,092	-
Deposits payable	2,000	-	2,000	-
Due to other funds	64,326	64,232	128,558	-
Due to primary government	-	-	-	100
Deferred revenue	5,177	-	5,177	-
Interest payable	-	47,472	47,472	-
Current portion of long-term debt	13,085	202,000	215,085	-
Total current liabilities	165,360	390,018	555,378	100
Noncurrent liabilities				
Accrued sick and vacation	9,100	884	9,984	-
Noncurrent portion of long-term debt	147,714	3,738,000	3,885,714	-
Total noncurrent liabilities	156,814	3,738,884	3,895,698	-
TOTAL LIABILITIES	322,174	4,128,902	4,451,076	100
NET ASSETS				
Invested in capital assets, net of related debt	1,222,757	3,781,579	5,004,336	9,783
Restricted for:				
Debt service	-	420,809	420,809	-
Capital projects	185,865	129,319	315,184	-
Other purposes	271,516	-	271,516	-
Unrestricted	133,948	201,872	335,820	25,067
TOTAL NET ASSETS	\$ 1,814,086	\$ 4,533,579	\$ 6,347,665	\$ 34,850

See accompanying notes to financial statements.

Village of Capac
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government								
Governmental activities								
General government	\$ 140,826	\$ 362	\$ -	\$ -	\$ (140,464)	\$ -	\$ (140,464)	\$ -
Public safety	334,942	11,772	2,667	-	(320,503)	-	(320,503)	-
Public works	222,402	-	117,965	-	(104,437)	-	(104,437)	-
Community and economic development	28,620	-	-	-	(28,620)	-	(28,620)	-
Recreation and cultural	25,455	-	-	-	(25,455)	-	(25,455)	-
Other	52,640	-	-	-	(52,640)	-	(52,640)	-
Interest on long-term debt	16,827	-	-	-	(16,827)	-	(16,827)	-
Total governmental activities	821,712	12,134	120,632	-0-	(688,946)	-0-	(688,946)	-0-
Business-type activities								
Sewer	248,709	172,132	-	-	-	(76,577)	(76,577)	-
Trash	88,183	79,223	-	-	-	(8,960)	(8,960)	-
Water	298,613	364,008	-	-	-	65,395	65,395	-
Total business-type activities	635,505	615,363	-0-	-0-	-0-	(20,142)	(20,142)	-0-
Total primary government	<u>\$ 1,457,217</u>	<u>\$ 627,497</u>	<u>\$ 120,632</u>	<u>\$ -0-</u>	(688,946)	(20,142)	(709,088)	-0-
Component units								
Downtown Development Authority	\$ 200	\$ -	\$ -	\$ -	-	-	-0-	(200)
Total component units	<u>\$ 200</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(200)
General revenues								
Property taxes					511,968	113,164	625,132	67,505
State shared revenues					217,681	-	217,681	-
Investment earnings					20,719	14,309	35,028	2,456
Rents					13,000	-	13,000	-
Other					39,812	-	39,812	-
Transfers					250,869	71,760	322,629	(322,628)
Total general revenues and transfers					1,054,049	199,233	1,253,282	(252,667)
Change in net assets					365,103	179,091	544,194	(252,867)
Restated net assets, beginning of the year					1,448,983	4,354,488	5,803,471	287,717
Net assets, end of the year					<u>\$ 1,814,086</u>	<u>\$ 4,533,579</u>	<u>\$ 6,347,665</u>	<u>\$ 34,850</u>

See accompanying notes to financial statements.

Village of Capac
Governmental Funds

BALANCE SHEET

June 30, 2007

	General	Street Scape	Police Department
ASSETS			
Cash and cash equivalents	\$ 60,265	\$ 60,580	\$ 24,826
Taxes receivable	51,239	-	-
Accounts receivable	4,266	-	-
Due from other governmental units - State	66,363	-	-
Due from other funds	11,363	-	-
Due from component unit	100	-	-
Prepays	22,598	-	5,353
TOTAL ASSETS	\$ 216,194	\$ 60,580	\$ 30,179
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 16,061	\$ 8,451	\$ 2,158
Accrued liabilities	4,092	-	-
Deposits payable	2,000	-	-
Due to other funds	57,000	-	6,998
Deferred revenue	51,239	-	-
TOTAL LIABILITIES	130,392	8,451	9,156
FUND BALANCES			
Reserved for			
Prepays	22,598	-	5,353
Unreserved			
Undesignated, reported in			
General Fund	63,204	-	-
Capital Project Funds	-	52,129	-
Special Revenue Funds	-	-	15,670
TOTAL FUND BALANCES	85,802	52,129	21,023
TOTAL LIABILITIES AND FUND BALANCES	\$ 216,194	\$ 60,580	\$ 30,179

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 346,445	\$ 492,116
-	51,239
137	4,403
18,515	84,878
80,000	91,363
-	100
654	28,605
<u>\$ 445,751</u>	<u>\$ 752,704</u>

\$ 50,010	\$ 76,680
-	4,092
-	2,000
328	64,326
5,177	56,416

55,515	203,514
--------	---------

654	28,605
-----	--------

-	63,204
133,736	185,865
255,846	271,516

390,236	549,190
---------	---------

<u>\$ 445,751</u>	<u>\$ 752,704</u>
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Village of Capac

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds \$ 549,190

Amounts reported for the governmental activities in the statement of net assets are different because:

Other long term assets are not available to pay for current period expenditures,
therefore, are deferred in the funds 51,239

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,056,363	
Accumulated depreciation is	<u>(672,807)</u>	
Capital assets, net		1,383,556

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Notes payable	(143,389)	
Lease payable	(17,410)	
Compensated absences	<u>(9,100)</u>	
		<u>(169,899)</u>

Net assets of governmental activities \$ 1,814,086

See accompanying notes to financial statements.

Village of Capac

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	General	Street Scape	Police Department
REVENUES			
Taxes	\$ 455,166	\$ -	\$ -
Licenses and permits	362	-	-
Intergovernmental	217,681	-	2,667
Fines and forfeits	-	-	11,772
Interest and rents	19,627	367	318
Other	27,859	-	5,514
TOTAL REVENUES	720,695	367	20,271
EXPENDITURES			
Current			
General government	123,471	-	-
Public safety	-	-	293,666
Public works	114,007	-	-
Community and economic development	25,093	-	-
Recreation and cultural	22,318	-	-
Other	45,833	320	-
Debt service	-	-	21,702
Capital outlay	-	487,674	27,856
TOTAL EXPENDITURES	330,722	487,994	343,224
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	389,973	(487,627)	(322,953)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	27,013
Transfers in	-	512,628	310,547
Transfers out	(315,356)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(315,356)	512,628	337,560
NET CHANGE IN FUND BALANCES	74,617	25,001	14,607
Fund balances, beginning of year	11,185	27,128	6,416
Fund balances, end of year	\$ 85,802	\$ 52,129	\$ 21,023

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 56,802	\$ 511,968
-	362
117,965	338,313
-	11,772
13,407	33,719
6,439	39,812
194,613	935,946
-	123,471
-	293,666
80,987	194,994
-	25,093
-	22,318
-	46,153
9,208	30,910
70,305	585,835
160,500	1,322,440
34,113	(386,494)
-	27,013
115,559	938,734
(372,509)	(687,865)
(256,950)	277,882
(222,837)	(108,612)
613,073	657,802
\$ 390,236	\$ 549,190

Village of Capac

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ (108,612)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 551,120	
Depreciation expense	<u>(63,163)</u>	
Excess of capital outlay under depreciation expense		487,957

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	14,083	
Capital lease proceeds	<u>(27,013)</u>	
		(12,930)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued compensated absences	<u>(1,312)</u>
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Change in net assets of governmental activities \$ 365,103

See accompanying notes to financial statements.

Village of Capac

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2007

	Business-type Activities		
	Sewer	Water	Trash
ASSETS			
Current assets			
Cash and cash equivalents	\$ 22,865	\$ 97,233	\$ 7,330
Accounts receivable	37,918	76,832	17,698
Prepaid expenses	1,457	2,151	177
Total current assets	62,240	176,216	25,205
Restricted Assets			
Cash and cash equivalents	1,773	247,459	-
Investments	64,416	99,530	-
Due from other funds	-	37,933	-
Deposits with county	99,017	-	-
Total restricted assets	165,206	384,922	-0-
Noncurrent assets			
Capital assets	6,199,258	5,184,438	4,836
Accumulated depreciation	(2,187,031)	(1,390,707)	(4,836)
Total capital assets net	4,012,227	3,793,731	-0-
Deferred charges	15,282	27,452	-
Total noncurrent assets	4,027,509	3,821,183	-0-
TOTAL ASSETS	4,254,955	4,382,321	25,205
LIABILITIES			
Current liabilities			
Accounts payable	3,168	4,248	7,090
Due to other funds	44,048	2,086	165
Total current liabilities	47,216	6,334	7,255
Current liabilities payable from restricted assets			
Accounts payable	-	61,808	-
Due to other funds	17,933	-	-
Current portion of bond/notes payable	135,000	67,000	-
Accrued interest payable	11,984	35,488	-
Total current liabilities payable from restricted assets	164,917	164,296	-0-

Total	
\$	127,428
	132,448
	3,785
	263,661
	249,232
	163,946
	37,933
	99,017
	550,128
	11,388,532
	(3,582,574)
	7,805,958
	42,734
	7,848,692
	8,662,481
	14,506
	46,299
	60,805
	61,808
	17,933
	202,000
	47,472
	329,213

Village of Capac

Proprietary Funds

STATEMENT OF NET ASSETS - CONTINUED

June 30, 2007

	Business-type Activities		
	Sewer	Water	Trash
LIABILITIES - CONTINUED			
Noncurrent liabilities			
Accrued vacation and sick	\$ 884	\$ -	\$ -
Bonds payable (net of current portion)	865,000	2,698,000	-
Notes payable (net of current portion)	175,000	-	-
Total long-term liabilities	1,040,884	2,698,000	-0-
TOTAL LIABILITIES	1,253,017	2,868,630	7,255
NET ASSETS			
Invested in capital assets, net of related debt	2,822,592	958,887	100
Restricted			
Debt service	66,189	354,620	-
Capital projects	99,017	30,302	-
Unrestricted	14,140	169,882	17,850
TOTAL NET ASSETS	\$ 3,001,938	\$ 1,513,691	\$ 17,950

See accompanying notes to financial statements.

<u>Total</u>	
\$	884
	3,563,000
	<u>175,000</u>
	3,738,884
	<u>4,128,902</u>
	3,781,579
	420,809
	129,319
	<u>201,872</u>
\$	<u><u>4,533,579</u></u>

Village of Capac

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2007

	Business-type Activities		
	Sewer	Water	Trash
OPERATING REVENUES			
Charges for services	\$ 167,297	\$ 352,960	\$ 77,584
Other	4,835	11,048	1,639
TOTAL OPERATING REVENUES	172,132	364,008	79,223
OPERATING EXPENSES			
Salaries and wages	64,427	85,427	6,501
Benefits	26,823	38,291	3,080
Supplies	2,809	24,080	237
Contracted services	3,838	25,025	78,242
Utilities	9,924	13,359	-
Repairs and maintenance	5,220	2,856	-
Depreciation	79,035	39,642	100
Other	1,503	6,643	23
TOTAL OPERATING EXPENSES	193,579	235,323	88,183
OPERATING INCOME (LOSS)	(21,447)	128,685	(8,960)
NONOPERATING REVENUES (EXPENSES)			
Interest earned	6,361	7,781	167
Property taxes	113,164	-	-
Interest and fiscal charges	(55,130)	(63,290)	-
TOTAL NONOPERATING REVENUES	64,395	(55,509)	167
INCOME (LOSS) BEFORE TRANSFERS	42,948	73,176	(8,793)
TRANSFERS IN	20,000	51,760	-
CHANGE IN NET ASSETS	62,948	124,936	(8,793)
Net assets, beginning of year	2,938,990	1,388,755	26,743
Net assets, end of year	\$ 3,001,938	\$ 1,513,691	\$ 17,950

See accompanying notes to financial statements.

<u>Total</u>	
\$	597,841
	<u>17,522</u>
	615,363
	156,355
	68,194
	27,126
	107,105
	23,283
	8,076
	118,777
	<u>8,169</u>
	<u>517,085</u>
	98,278
	14,309
	113,164
	<u>(118,420)</u>
	<u>9,053</u>
	107,331
	<u>71,760</u>
	179,091
	<u>4,354,488</u>
\$	<u><u>4,533,579</u></u>

Village of Capac

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	Business-Type Activities		
	Sewer	Water	Trash
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 164,380	\$ 356,456	\$ 77,095
Cash received from others	4,835	5,788	1,639
Cash paid to employees	(64,427)	(85,427)	(6,501)
Cash paid to employee benefits	(26,823)	(38,291)	(3,080)
Cash paid to vendors	(33,376)	(305,589)	(77,681)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	44,589	(67,063)	(8,528)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	20,000	51,760	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Loan proceeds	-	2,315,000	-
Property taxes	113,164	-	-
Capital purchases	(2,510)	(2,008,868)	-
Principal paid on bonds	(125,000)	(35,000)	-
Interest and fiscal charges paid	(50,006)	(60,794)	-
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(64,352)	210,338	-0-
CASH FLOWS FROM INVESTING ACTIVITIES			
Change in deposits with County	(4,174)	-	-
Redemption (purchase) of investments	(64,416)	(33,857)	-
Interest earned	6,361	7,781	167
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(62,229)	(26,076)	167
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(61,992)	168,959	(8,361)
Cash and cash equivalents, beginning of year	86,630	175,733	15,691
Cash and cash equivalents, end of year	<u>\$ 24,638</u>	<u>\$ 344,692</u>	<u>\$ 7,330</u>

<u>Total</u>	
\$	597,931
	12,262
	(156,355)
	(68,194)
	<u>(416,646)</u>
	(31,002)
	71,760
	2,315,000
	113,164
	(2,011,378)
	(160,000)
	<u>(110,800)</u>
	145,986
	(4,174)
	(98,273)
	<u>14,309</u>
	<u>(88,138)</u>
	98,606
	<u>278,054</u>
\$	<u><u>376,660</u></u>

Village of Capac

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2007

	Business-type Activities		
	Sewer	Water	Trash
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (21,447)	\$ 128,685	\$ (8,960)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	79,035	39,642	100
(Increase) in due from other funds	-	(5,260)	-
(Increase) decrease in receivables	(2,917)	3,496	(489)
(Decrease) in due to other funds	(9,438)	(90,830)	(31)
Increase (decrease) in accounts payable	703	(172,850)	1,029
(Increase) decrease in prepaid expenses	(497)	(799)	(177)
Increase (decrease) in accrued liabilities	(850)	30,853	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 44,589</u>	<u>\$ (67,063)</u>	<u>\$ (8,528)</u>

See accompanying notes to financial statements.

Total

\$ 98,278

118,777
(5,260)
90
(100,299)
(171,118)
(1,473)
30,003

\$ (31,002)

Village of Capac

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Tax Collection Fund</u>	<u>Agency Fund</u>	<u>Total</u>
ASSETS			
Cash	<u>\$ 729</u>	<u>\$ 9</u>	<u>\$ 738</u>
LIABILITIES			
Due to General Fund	<u>\$ 729</u>	<u>\$ 9</u>	<u>\$ 738</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village operates under an elected Village Council, which consists of the President and six (6) council members, with daily activities managed by the Village Manager and Clerk. The Village provides services to its more than 1,500 residents in many areas including general government, law enforcement, highways and streets, and utility services.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Capac (primary government), and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

2. Discretely Presented Component Unit

The Downtown Development Authority is controlled by a nine member Council, who are appointed by the Village President. The DDA is responsible for the creation of a development and financial plan for the Downtown district or a development area within the district to promote economic growth. The Authority must obtain Village Council approval of all development and financial plans. The annual operating budget and any modifications also require the approval of the Village Council.

The Downtown Development Authority was included in the scope of the audit of the basic financial statements. Separate audited financial statements for this component unit were not issued.

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Street Scape Fund is a Capital Project fund that is used to account for the financial resources that are used for capital expenditures related to the Street Scape project.
- c. The Police Fund is a Special Revenue fund used to account for the financial resources related to operation of the Police Department.
- d. The Sewer Fund is an Enterprise Fund that is used to account for sanitary sewer services provided to the residential and commercial users.
- e. The Water Fund is an Enterprise Fund that is used to account for the treatment and distribution of water to the residential and commercial users.

4. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

All proprietary and agency funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Village President prepares the proposed operating budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. Prior to June 30, the proposed budgets are presented to the Village Council.
- c. Prior to the end of June, a public hearing is held and then the Council may add to, subtract, or change appropriations. The budgets are then legally enacted through passage of a Village Council resolution.
- d. The budget is integrated with the accounting system and is used as a management control device during the year. The Village Manager is authorized to transfer budgeted amounts between accounts within the same activity of any fund. Transfers between activities and funds must be approved by the Village Council.
- e. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Unexpended appropriations lapse at year-end.
- f. Budgeted amounts are as originally adopted or as amended by the Village Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

7. Cash and Cash Equivalents

The Village's cash and cash equivalents consist of cash on hand, demand deposits, or savings and certificates of deposits with original maturities of three months or less from the date of acquisition.

8. Receivables and Due From Other Governmental Units

Receivables consist of amounts due from various individuals and businesses related to charges for services, and taxes levied that have not been collected. Amounts due from other governmental units consist of amounts due for various financial assistance programs.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Investments

The Villages investments consist of certificates of deposits with original maturities greater than three months from the date of acquisition.

10. Restricted Assets

Certain revenues and resources in the proprietary fund types are classified as restricted assets on the balance sheet because their use is limited.

11. Prepays

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenditures.

12. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

Capital assets include land, buildings, equipment, vehicles, mains and infrastructure and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type columns. Capital assets are defined by the Village as those with an initial cost of \$2,000 or more and an estimated useful life of more than two years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10-50 years
Machinery and equipment	3-25 years
Vehicles	3-12 years
Infrastructure/Roads	20-30 years
Utility Systems	10-80 years

13. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of the employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

15. Deferred Revenue

Deferred revenue consists of amounts related to assessments of a liability that was put on the tax roll. This amount is not deferred in the government-wide financial statements.

16. Property Tax

The Village property taxes are levied each July on the assessed valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Reviews.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Capac for the fiscal year 2007 had taxable value of \$35,622,453. The millage rates levied by the Village were 13.573 for the General Fund, 1.6923 for Street Improvements and 3.3779 for Sewer Debt Service fund.

17. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds and the component unit, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

18. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

19. Federal Programs

Federal programs are accounted for in the funds to which the programs pertain. The Village has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS

The Village cash, cash equivalents, and investments consist of checking and savings accounts, money markets accounts, and certificates of deposit, maintained by individual funds and are reported as cash, cash equivalents and investments on the basic financial statements.

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

In accordance with the Village's investment policy and Michigan Compiled Laws, the Village is authorized to invest in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State of the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

The Village's investment policy objectives, in order of priority, are safety, diversification, liquidity, and return on investment. The Village Treasurer is responsible for the investment program.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of June 30, 2007, the carrying amounts of the Village's primary government deposits were \$1,118,338 and the bank balance was \$1,054,025, of which \$530,545 was covered by federal depository insurance. The balance of \$523,480 was uninsured and uncollateralized. In addition, the carrying amounts of the component units deposits we \$25,167 and the bank balance was \$25,167 which was covered by federal depository insurance.

Federal Deposit Insurance Corporation (FDIC), regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents and investments were substantially higher at these peak periods than at year-end.

The cash, cash equivalents and investments referred to above have been reported in the cash and cash equivalents or investment captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2007:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 619,544	\$ 25,167	\$ 738	\$ 645,449
Cash and cash equivalents - restricted	249,232	-	-	249,232
Investments	84,878	-	-	84,878
Investments - restricted	<u>163,946</u>	<u>-</u>	<u>-</u>	<u>163,946</u>
	<u>\$ 1,117,600</u>	<u>\$ 25,167</u>	<u>\$ 738</u>	<u>\$ 1,143,505</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2007:

Due to General Fund from other funds:	
Police Department	\$ 6,998
Sewer	1,048
Water	2,086
Trash	165
Other non-major funds	<u>1,066</u>
	<u>\$ 11,363</u>
Due to Water Fund from other funds:	
Sewer Fund	\$ 20,000
General Fund	<u>17,933</u>
	<u>\$ 37,933</u>
Due to nonmajor governmental funds from:	
General Fund	\$ 37,000
Sewer fund	<u>43,000</u>
	<u>\$ 80,000</u>
Due to General Fund from Component Unit:	
Downtown Development Authority	<u>\$ 100</u>

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Police Department Fund from:	
General Fund	<u>\$ 310,547</u> ⁽¹⁾
Transfers to Street Scape Fund from:	
Major Street Fund	\$ 100,000 ⁽²⁾
Downtown Development Authority Funds	322,628 ⁽²⁾
Water/Sewer Connection Fund	<u>90,000</u> ⁽²⁾
	<u>\$ 512,628</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 4,810 ⁽¹⁾
Major Street Fund	20,749 ⁽³⁾
Street Improvement Funds	<u>90,000</u> ⁽²⁾
	<u>\$ 115,559</u>
Transfers to Sewer Fund from:	
Non-major Funds	<u>\$ 20,000</u> ⁽¹⁾

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: INTERFUND TRANSFERS - CONTINUED

Transfers to Water Fund from:
Non-major Funds \$ 51,760 ⁽¹⁾

- (1) Transfer to cover operations
- (2) To cover costs of construction project
- (3) To transfer percentage of ACT 51 money

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

PRIMARY GOVERNMENT

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 99,254	\$ 2,857	\$ -	\$ 102,111
Construction in progress	<u>150,592</u>	<u>481,678</u>	<u>-</u>	<u>632,270</u>
Total capital assets not being depreciated	249,846	484,535	-0-	734,381
Capital assets being depreciated				
Land improvements	86,779	-		86,779
Buildings and Improvements	654,668	-	-	654,668
Machinery and equipment	219,523	15,735	-	235,258
Vehicles	246,245	27,013	-	273,258
Infrastructure	<u>48,000</u>	<u>24,019</u>	<u>-</u>	<u>72,019</u>
Total capital assets being depreciated	1,255,215	66,767	-0-	1,321,982
Less accumulated depreciation				
Land improvements	(25,928)	(4,339)	-	(30,267)
Buildings and improvements	(275,071)	(14,204)	-	(289,275)
Machinery and equipment	(145,238)	(18,157)	-	(163,395)
Vehicles	(162,362)	(22,399)	-	(184,761)
Infrastructure	<u>(1,045)</u>	<u>(4,064)</u>	<u>-</u>	<u>(5,109)</u>
Total accumulated depreciation	<u>(609,644)</u>	<u>(63,163)</u>	<u>-0-</u>	<u>(672,807)</u>
Total Net capital assets being depreciated	<u>645,571</u>	<u>3,604</u>	<u>-0-</u>	<u>649,175</u>
Total Net Capital Assets - Governmental Activities	<u>\$ 895,417</u>	<u>\$ 488,139</u>	<u>\$ -0-</u>	<u>\$ 1,383,556</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Business-type activities				
Capital assets not being depreciated				
Land	\$ 39,000	\$ -	\$ -	\$ 39,000
Construction in progress	<u>477,694</u>	<u>2,008,868</u>	<u>-</u>	<u>2,486,562</u>
Total capital assets being depreciated	516,694	2,008,868	-0-	2,525,562
Capital assets being depreciated				
Utility systems	8,880,084	2,510	-	8,806,594
Machinery and equipment	<u>56,376</u>	<u>-</u>	<u>-</u>	<u>56,376</u>
Total capital assets being depreciated	8,860,460	2,510	-0-	8,862,970
Less accumulated depreciation				
Utility systems	(3,410,209)	(117,310)	-	(3,527,519)
Machinery and equipment	<u>(53,558)</u>	<u>(1,497)</u>	<u>-</u>	<u>(55,055)</u>
Total accumulated depreciation	<u>(3,463,767)</u>	<u>(118,807)</u>	<u>-0-</u>	<u>(3,582,574)</u>
Net capital assets being depreciated	<u>5,396,693</u>	<u>(116,297)</u>	<u>-0-</u>	<u>5,280,396</u>
Total Net Capital Assets - Business-type Activities	<u>\$ 5,913,387</u>	<u>\$ 1,892,571</u>	<u>\$ -0-</u>	<u>\$ 7,805,958</u>

COMPONENT UNIT

Downtown Development Authority

Capital assets not being depreciated				
Land	<u>\$ 9,783</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 9,783</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

General government	\$ 11,051
Public safety	26,284
Public works	17,453
Community and Economic Development	2,246
Recreation and cultural	<u>4,131</u>
Total depreciation expense	<u>\$ 63,163</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended June 30, 2007.

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Police Building Note Payable	\$ 147,869	\$ -	\$ 4,480	\$ 143,389	\$ 4,666
DPW Truck Capital Lease	8,784	-	8,784	- 0 -	-
Police Vehicle Capital Lease	-	27,013	9,603	17,410	8,419
Accrued sick and vacation	<u>7,788</u>	<u>1,312</u>	<u>-</u>	<u>9,100</u>	<u>-</u>
Total governmental activities	164,441	28,325	22,867	169,899	13,085
Business-type Activities					
Michigan Water Pollution Control Loan	255,000	-	40,000	215,000	40,000
2000 Sewage Disposal System No. X Bonds	635,000	-	30,000	605,000	30,000
2004 Water Supply System Refunding Bonds	485,000	-	35,000	450,000	40,000
2004 Sewage Disposal System No. X Refunding Bonds	410,000	-	55,000	355,000	65,000
2006 Water Supply Systems Rural Development Loan	-	2,315,000	-	2,315,000	27,000
Accrued sick and vacation	<u>2,946</u>	<u>-</u>	<u>2,062</u>	<u>884</u>	<u>-</u>
Total business-type activities	<u>1,787,946</u>	<u>2,315,000</u>	<u>162,062</u>	<u>3,940,884</u>	<u>202,000</u>
TOTAL REPORTING ENTITY	<u>\$ 1,952,387</u>	<u>\$ 2,343,325</u>	<u>\$ 184,929</u>	<u>\$ 4,110,783</u>	<u>\$ 215,085</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Police Building Note Payable

The Village refinanced the loans to purchase and remodel the police station in the amount of \$150,281. The loan is to be repaid in monthly installments of \$1,008, including interest of 5.25% through December 2015, at which point a balloon payment will be due.

\$ 143,389

Police Vehicle Capital Lease Payable

The Village entered into a lease/purchase in October 2006 for the purchase of a Ford Crown Victoria for the Police Department. The lease/purchase obligation will be paid off by October 2008.

\$ 17,410

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to amortize the following loans outstanding at June 30, 2007, are as follows:

	<u>Police Building Note</u>		<u>Police Vehicle Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 4,666	\$ 7,432	\$ 8,419	\$ 1,184
2009	4,917	7,181	8,991	611
2010	5,181	6,917	-	-
2011	5,460	6,638	-	-
2012	5,773	6,325	-	-
2013-2015	117,392	19,580	-	-
	<u>\$ 143,389</u>	<u>\$ 54,073</u>	<u>\$ 17,410</u>	<u>\$ 1,795</u>

Michigan Water Pollution Control Revolving Loan Fund Program

To cover part of the construction cost of the Sewage Disposal System, the Village borrowed \$780,000 through the Michigan Municipal Bond Authority as part of the Michigan Water Pollution Control revolving Loan Fund Program. The total amount of loan money available was \$780,000, however only \$750,409 was drawn. The loan, dated September 26, 1991, is due in annual installments ranging from \$40,000 to \$45,000 through October 1, 2011, with interest of 2%, payable semi-annually.

\$ 215,000

Sewage Disposal System No. X Bonds, Series 2000

The 2000 \$790,000 Sewage Disposal System Bonds, dated August 1, 2000, due in annual installments ranging from \$30,000 to \$65,000 through April 1, 2020, with interest ranging from 5.00 to 5.55%, payable semi-annually.

\$ 605,000

Sewage Disposal System No. X Refunding Bonds, Series 2004

The 2004 Sewage Disposal System No. X Refunding Bonds, dated May 18, 2004, due in annual installments ranging from \$65,000 to \$75,000 through October 1, 2011, with interest ranging from 2.5 to 3.75%, payable semi-annually.

\$ 355,000

The annual requirements to amortize the following Sewage Disposal System Bonds and notes outstanding at June 30, 2007, are as follows:

	<u>Michigan Water Pollution Revolving Loan</u>		<u>2000 Sewage Disposal System Bond</u>		<u>2004 Sewage Disposal System Refunding Bond</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 40,000	\$ 3,900	\$ 30,000	\$ 32,315	\$ 65,000	\$ 10,508
2009	45,000	3,050	35,000	30,815	65,000	8,875
2010	40,000	2,200	35,000	29,065	75,000	6,656
2011	45,000	1,350	40,000	27,315	75,000	4,125
2012	45,000	450	40,000	25,295	75,000	1,406
2013-2017	-	-	245,000	91,353	-	-
2018-2020	-	-	180,000	10,645	-	-
	<u>\$ 215,000</u>	<u>\$ 10,950</u>	<u>\$ 605,000</u>	<u>\$ 246,803</u>	<u>\$ 355,000</u>	<u>\$ 31,480</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED

Accrued Vacation and Sick Pay

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amounts of these vested rights have been accrued on the financial statements.

\$ 9,100

2006 Water Supply System Rural Development Loan

The Village borrowed \$2,652,000 through the U.S. Department of Agriculture, Rural Development Office to fund water system improvements and the Arsenic Removal System. The total amount of loan funds available are \$2,652,000, and \$2,315,000 of that amount has been drawn and expended as of June 30, 2007. The loan, dated August 21, 2006, is due in annual installments ranging from \$27,000 to \$128,000 through August 1, 2047, with interest of 4.125%, payable semi-annually.

\$ 2,315,000

Water Supply System Revenue Refunding Bonds, Series 2004

The 2004 \$570,000 Water Supply System Revenue Refunding Bonds, dated February 18, 2004, due in annual installments ranging from \$35,000 to \$40,000 through November 1, 2018, with interest ranging from 2.0 to 4.125%, payable semi-annually. These bonds were issued to pay off the 1989 Water Supply System Revenue Bonds of \$555,000.

\$ 450,000

The annual requirements to amortize the following Water Supply System Bonds outstanding at June 30, 2007, are as follows:

	2004 Water Supply System Refunding Bonds	
	Principal	Interest
2008	\$ 40,000	\$ 14,339
2009	35,000	13,536
2010	40,000	12,614
2011	40,000	11,494
2012	30,000	10,444
2013-2017	190,000	29,148
2018-2019	<u>75,000</u>	<u>2,966</u>
	<u>\$ 450,000</u>	<u>\$ 94,541</u>

The annual requirements for the 2006 Water System Rural Development Loan has not been presented due to not yet drawing all funds and as a result the final amortization schedule has not been completed.

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various reserved fund balances as of June 30, 2007:

Fund Balances

General Fund	
Reserved for prepaids	\$ 22,598
Police Department Fund	
Reserve for prepaids	\$ 5,353
Nonmajor governmental Funds	
Reserved for prepaids	\$ 654

Net Assets have been restricted in various proprietary funds to indicate that portions are restricted for specific purposes. The following net assets are restricted at June 30, 2007.

Restricted Net Assets

Water Fund	
Restricted for debt service	\$ 354,620
Restricted for capital projects	30,302
	<u>\$ 384,922</u>
Sewer Fund	
Restricted for debt service	\$ 66,189
Restricted for capital projects	99,017
	<u>\$ 165,206</u>

NOTE H: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The plan adopted by the Village Council requires no member contributions. The Village is required to contribute at an actuarially determined rate; the rate for fiscal year 2007 ranged from 13.47 percent to 38.82 percent based on employer groups. The contribution requirements for plan members and the Village are established and may be amended by the Village depending on the MERS contribution program adopted by the Village.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: RETIREMENT PLAN - CONTINUED**Annual Pension Costs**

For year ended June 30, 2007 the Village's annual pension cost of \$57,784 for the plan was equal to the Village's required and actual contributions. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.16% per year depending on age, attributable to seniority/merit and, (d) assumption benefits will increase 2.0 - 2.5% annually. The actuarial value of assets was determined on the basis of the evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 806,135	\$ 854,521	\$ 891,010
Actuarial accrued liability (AAL) (entry age)	1,620,786	1,687,660	1,741,327
Unfunded AAL	820,681	833,139	850,317
Funded ratio	50 %	51 %	51 %
Covered payroll	431,504	298,442	274,649
UAAL as a percentage of covered payroll	190 %	279 %	310 %

	Year Ended June 30,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 106,823	\$ 82,293	\$ 57,784
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the MERS actuarial reports as of December 31, 2006.

NOTE I: POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Village provides post-employment health care and life insurance benefits to certain retired supervisors. The benefits are paid as incurred. The amount paid on behalf of these four retirees for the year ended June 30, 2007 was \$70,720.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE J: RISK MANAGEMENT

The Village participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, crime and automobile. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2007:

PRIMARY GOVERNMENT	
Governmental Activities	
Capital Projects	\$ 185,865
Other purposes	
Public safety	15,670
Public Works/Streets	<u>255,846</u>
	<u>271,516</u>
	<u>\$ 457,381</u>
Business-type Activities	
Debt Service	\$ 420,809
Capital Projects	<u>129,319</u>
	<u>\$ 550,128</u>

NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional level.

During the year ended June 30, 2007, the Village incurred expenditures in the General Fund and Police Fund in excess of the amounts appropriated as follows:

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Village Council	\$ 41,690	\$ 44,807	\$ 3,117
Village Manager	12,925	14,448	1,523
Public works			
Street Lighting	22,599	24,285	1,686
Other Financing uses			
Transfers out	310,547	315,356	4,809
Police Department Fund	328,047	343,224	15,177

NOTE M: CONTRACT COMMITMENTS

The Village has committed to various contracts for the water system improvements at June 30, 2007. The outstanding portion of these commitments total \$273,806 as of June 30, 2007. The Village has sufficient loan funds and other resources to cover these outstanding commitments.

REQUIRED SUPPLEMENTARY INFORMATION



Village of Capac

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes				
Property taxes	\$ 440,000	\$ 457,400	\$ 455,166	\$ (2,234)
Licenses and permits	400	400	362	(38)
Intergovernmental				
State	219,000	220,200	210,664	(9,536)
Local	<u>6,731</u>	<u>7,000</u>	<u>7,017</u>	<u>17</u>
Total intergovernmental	225,731	227,200	217,681	(9,519)
Interest and rents				
Interest	2,500	5,500	6,627	1,127
Rentals - cellular tower	<u>13,000</u>	<u>13,000</u>	<u>13,000</u>	<u>-0-</u>
Total interest and rents	15,500	18,500	19,627	1,127
Other				
Cable TV franchise fees	3,100	3,100	3,746	646
Refunds and reimbursements	<u>16,500</u>	<u>22,000</u>	<u>24,113</u>	<u>2,113</u>
Total other	<u>19,600</u>	<u>25,100</u>	<u>27,859</u>	<u>2,759</u>
TOTAL REVENUES	701,231	728,600	720,695	(7,905)
EXPENDITURES				
General government				
Village Council	41,406	41,690	44,807	(3,117)
Village Manager	10,325	12,925	14,448	(1,523)
Clerk	42,500	41,910	38,590	3,320
Treasurer	12,200	10,060	8,015	2,045
Elections	2,540	-	-	-0-
Village hall and grounds	<u>22,050</u>	<u>20,350</u>	<u>17,611</u>	<u>2,739</u>
Total general government	131,021	126,935	123,471	3,464

Village of Capac

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public works				
Public works	\$ 122,800	\$ 90,407	\$ 89,722	\$ 685
Street lighting	-	22,599	24,285	(1,686)
Total public works	122,800	113,006	114,007	(1,001)
Community and economic development				
Planning and zoning	24,694	26,150	25,093	1,057
Recreation and cultural				
Parks and Recreation	19,100	22,502	14,729	7,773
Library	9,930	9,430	7,589	1,841
Total recreation and cultural	29,030	31,932	22,318	9,614
Other	61,500	57,500	40,603	16,897
Contingencies	31,639	65,530	5,230	60,300
TOTAL EXPENDITURES	400,684	421,053	330,722	90,331
EXCESS OF REVENUES OVER EXPENDITURES	300,547	307,547	389,973	82,426
OTHER FINANCING SOURCES (USES)				
Transfers in	12,000	3,000	-	(3,000)
Transfers out	(310,547)	(310,547)	(315,356)	(4,809)
TOTAL OTHER FINANCING SOURCES (USES)	(298,547)	(307,547)	(315,356)	(7,809)
NET CHANGE IN FUND BALANCE	2,000	-0-	74,617	74,617
Fund balance, beginning of year	11,185	11,185	11,185	-0-
Fund balance, end of year	\$ 9,185	\$ 11,185	\$ 85,802	\$ 74,617

Village of Capac

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental				
State	\$ 3,100	\$ 3,100	\$ 2,667	\$ (433)
Fines and forfeits	7,600	9,200	11,772	2,572
Interest	25	200	318	118
Other	5,000	5,000	5,514	514
TOTAL REVENUES	15,725	17,500	20,271	2,771
EXPENDITURES				
Public safety	301,173	304,299	293,666	10,633
Capital outlay	13,000	2,046	27,856	(25,810)
Debt service	12,099	21,702	21,702	-0-
TOTAL EXPENDITURES	326,272	328,047	343,224	(15,177)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(310,547)	(310,547)	(322,953)	(12,406)
OTHER FINANCING SOURCES				
Capital lease proceeds	-	-	27,013	27,013
Transfers in	310,547	310,547	310,547	-0-
TOTAL OTHER FINANCING SOURCES	310,547	310,547	337,560	27,013
NET CHANGE IN FUND BALANCE	-0-	-0-	14,607	14,607
Fund balance, beginning of year	6,416	6,416	6,416	-0-
Fund balance, end of year	<u>\$ 6,416</u>	<u>\$ 6,416</u>	<u>\$ 21,023</u>	<u>\$ 14,607</u>

OTHER SUPPLEMENTARY INFORMATION

Village of Capac
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2007

	Special Revenue		
	Local Street	Major Street	Street Improvements
ASSETS			
Cash and cash equivalents	\$ 128,404	\$ 43,125	\$ 78,921
Accounts receivable	137	-	-
Due from other governmental units			
State	4,927	13,588	-
Due from other funds	-	-	-
Prepays	410	244	-
TOTAL ASSETS	<u>\$ 133,878</u>	<u>\$ 56,957</u>	<u>\$ 78,921</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 6,996	\$ 755	\$ -
Deferred revenue	5,177	-	-
Due to other funds	238	90	-
TOTAL LIABILITIES	12,411	845	-0-
FUND BALANCES			
Reserved	410	244	-
Unreserved			
Undesignated, reported in:			
Special Revenue Funds	121,057	55,868	78,921
Capital Project Funds	-	-	-
TOTAL FUND BALANCES	<u>121,467</u>	<u>56,112</u>	<u>78,921</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 133,878</u>	<u>\$ 56,957</u>	<u>\$ 78,921</u>

Capital Projects		Total
Equipment Replacement	Water/Sewer Connection Fees	Nonmajor Governmental Funds
\$ 10,269	\$ 85,726	\$ 346,445
-	-	137
-	-	18,515
12,000	68,000	80,000
-	-	654
<u>\$ 22,269</u>	<u>\$ 153,726</u>	<u>\$ 445,751</u>
\$ -	\$ 42,259	\$ 50,010
-	-	5,177
-	-	328
-0-	42,259	55,515
-	-	654
-	-	255,846
<u>22,269</u>	<u>111,467</u>	<u>133,736</u>
<u>22,269</u>	<u>111,467</u>	<u>390,236</u>
<u>\$ 22,269</u>	<u>\$ 153,726</u>	<u>\$ 445,751</u>

Village of Capac

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Special Revenue		
	Local Street	Major Street	Street Improvements
REVENUES			
Taxes	\$ -	\$ -	\$ 56,802
Intergovernmental - State	35,204	82,761	-
Interest	512	2,168	5,928
Other	6,425	14	-
TOTAL REVENUES	42,141	84,943	62,730
EXPENDITURES			
Current			
Public works	42,774	38,213	-
Debt service	-	-	-
Capital outlay	17,541	-	-
TOTAL EXPENDITURES	60,315	38,213	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(18,174)	46,730	62,730
OTHER FINANCING SOURCES (USES)			
Transfers in	115,559	-	-
Transfers out	-	(120,749)	(90,000)
TOTAL OTHER FINANCING SOURCES (USES)	115,559	(120,749)	(90,000)
NET CHANGE IN FUND BALANCES	97,385	(74,019)	(27,270)
Fund balances, beginning of year	24,082	130,131	106,191
Fund balances, end of year	\$ 121,467	\$ 56,112	\$ 78,921

Capital Projects		Total
Equipment Replacement	Water/Sewer Connection Fees	Nonmajor Governmental Funds
\$ -	\$ -	\$ 56,802
-	-	117,965
3	4,796	13,407
-	-	6,439
3	4,796	194,613
-	-	80,987
9,208	-	9,208
44	52,720	70,305
9,252	52,720	160,500
(9,249)	(47,924)	34,113
-	-	115,559
-	(161,760)	(372,509)
-0-	(161,760)	(256,950)
(9,249)	(209,684)	(222,837)
31,518	321,151	613,073
\$ 22,269	\$ 111,467	\$ 390,236

Village of Capac

Component Unit Funds

BALANCE SHEET/STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2007

	Governmental Fund	GASB 34 Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 25,167	\$ -	\$ 25,167
Capital assets - not being depreciated	-	9,783	9,783
TOTAL ASSETS	<u>\$ 25,167</u>	9,783	34,950
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to primary government	\$ 100	-	100
FUND BALANCE			
Unreserved			
Undesignated	25,067	(25,067)	-0-
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 25,167</u>		
NET ASSETS			
Investment in capital assets, net		9,783	9,783
Unrestricted		25,067	25,067
		<u>\$ 34,850</u>	<u>\$ 34,850</u>

Village of Capac

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2007

Total fund balance - component unit funds	\$ 25,067
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Amounts reported for the component unit activities in the statement of net assets are different because:

Capital assets used in component unit activities are not financial resources
and therefore are not reported as assets in the component unit funds.

The cost of capital assets is	<u>9,783</u>
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Net assets of component unit funds	<u><u>\$ 34,850</u></u>
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See accompanying notes to financial statements.

Village of Capac

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE/STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2007

	Governmental Fund	GASB 34 Adjustments	Statement of Activities
REVENUES			
Taxes	\$ 67,505	\$ -	\$ 67,505
Interest	2,456	-	2,456
Total Revenues	69,961	-0-	69,961
EXPENDITURES			
Current			
Community and economic development	200	-	200
EXCESS OF REVENUES (OVER) EXPENDITURES	69,761	-0-	69,761
OTHER FINANCING (USES)			
Transfers to primary government	(322,628)	-	(322,628)
NET CHANGE IN FUND BALANCE/NET ASSETS	(252,867)	-0-	(252,867)
Fund balance/net assets, beginning of year	277,934	9,783	287,717
Fund balance/net assets, end of year	\$ 25,067	\$ 9,783	\$ 34,850

Village of Capac

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE COMPONENT UNIT FUND
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2007

Net change in fund balances - total component unit funds	\$ (252,867)
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Amounts reported for governmental activities in the statement of activities are different because:	
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-

Change in net assets of component unit activities	<u>\$ (252,867)</u>
--	----------------------------

See accompanying notes to financial statements.

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Capac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 Preparation of Financial Statements in Accordance with GAAP

As part of the audit process, the Village, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards this is now a control deficiency that the Village does not prepare all significant year-end adjusting entries and/or have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

We recommend the Village consider having applicable employees prepare all significant year-end adjusting entries and to provide these individuals with training (if needed) that would allow them to attain the qualifications required to be able to complete all necessary year-end adjusting entries and to fully understand the GAAP financial statement preparation process. Should the Village choose not to address this issue, management and the Council should realize that an increased risk is present in not having the proper internal control over financial reporting.

2007-2 Internal Controls Over Utility Billings and Collections

During our analysis of the internal control structure over utility billings and collections, we noted that the Village Clerk is involved in all aspects of the operation (i.e., enters usage information and prepares billings, collects utility receipts, posts payments and adjustments to customer accounts, etc.). This structure does not provide adequate internal controls due to the fact that one individual has the ability to process all aspects of a transaction. We did note that the Deputy Clerk also is involved in collecting utility receipts on certain days.

We recommend the Village review the internal control structure and procedures related to utility billing and collections to determine if there are any changes that could be made to strengthen the internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one (1) instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2007-3 Expenditures in Excess of Appropriations

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated. This issue was noted in the General Fund and Police Department Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Council shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend that the Village management monitor adopted budgets against actual expenditures and make adjustments as appropriate throughout the year.

We noted certain other matters that we reported to management of the Village Council in a separate letter dated December 17, 2007.

This report is intended solely for the information and use of the Village Council and management of the Village of Capac, others within the organization, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

December 17, 2007

**Village of Capac
St. Clair County, Michigan**

**SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2007

Village of Capac
St. Clair County, Michigan

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

Compliance

We have audited the compliance of the Village of Capac with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended June 30, 2007. The Village of Capac's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program are the responsibility of Village of Capac's management. Our responsibility is to express an opinion on the Village of Capac's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about the Village of Capac's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Capac's compliance with those requirements.

In our opinion, the Village of Capac complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ending June 30, 2007.

Internal Control Over Compliance

The management of the Village of Capac is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Village of Capac's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Village of Capac as of and for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Village of Capac's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Village Council and management of the Village of Capac, the pass-through grantors, and the U.S. Department of Agriculture and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 24, 2008

Village of Capac
St. Clair County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Rural Development Office			
Water and Waste Disposal Systems For			
Rural Communities	10.760 ^(a)		
Loan Program- Water Improvement Project		26-077	\$ <u>2,315,000</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u>2,315,000</u>

(a) - Denotes program tested as a "major" program

Village of Capac
St. Clair County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Village of Capac and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements that are reconciled in Note B.

NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the intergovernmental revenues reported in the June 30, 2007, Basic Financial Statements to the expenditures of the Village administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Inter- Governmental Revenue</u>	<u>Less State/Local Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
Governmental Funds	\$ 338,313	\$ 338,313	\$ -	\$ -0-
Proprietary Funds				
Water Fund	-	-	2,315,000	2,315,000
Other	-	-	-	-0-
TOTAL PRIMARY GOVERNMENT	<u>\$ 338,313</u>	<u>\$ 338,313</u>	<u>\$ 2,315,000</u>	<u>\$ 2,315,000</u>

Following is a summary of the adjustment in the above schedule:

- (1) The total adjustment of \$2,315,000 in Federal funds represents the portion of loan proceeds received by the Village of Capac that are capitalized with Federal funds and thus must be reported as Federal financial assistance.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac for the year ended June 30, 2007, and have issued our report thereon dated December 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Capac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies labeled as 2007-1 and 2007-2 in the Schedule of Findings to be significant deficiencies in internal control over financial reporting:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one (1) instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which labeled as 2007-3 in the Schedule of Findings.

We noted certain other matters that we reported to management of the Village Council in a separate letter dated December 17, 2007.

This report is intended solely for the information and use of the Village Council and management of the Village of Capac, others within the organization, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

December 17, 2007

Village of Capac
St. Clair County, Michigan

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2007

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were two (2) reportable conditions disclosed by the audit of the basic financial statements. We noted one (1) instance of noncompliance with laws, regulations, contracts and grants that could have a direct and material affect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We noted no reportable conditions related to internal controls or compliance related to the major programs tested. The major program tested to cover 50 percent of the total Federal expenditures was the Water and Waste Disposal Systems for Rural Communities (CFDA 10.760). Total Federal expenditures for the year ended June 30, 2007, for the major program was \$2,315,000 which is 100 percent of total Federal expenditures. The Village did not qualify as a low-risk auditee.

The Village had one (1) Type A program. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Significant Deficiencies Related to Internal Control Over the Basic Financial Statements.

2007-1 Preparation of Financial Statements in Accordance with GAAP

As part of the audit process, the Village, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards this is now a control deficiency that the Village does not prepare all significant year-end adjusting entries and/or have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

We recommend the Village consider having applicable employees prepare all significant year-end adjusting entries and to provide these individuals with training (if needed) that would allow them to attain the qualifications required to be able to complete all necessary year-end adjusting entries and to fully understand the GAAP financial statement preparation process. Should the Village choose not to address this issue, management and the Council should realize that an increased risk is present in not having the proper internal control over financial reporting.

CORRECTIVE ACTION RESPONSE

The Village contracts with an individual who performs various accounting services including maintenance of monthly financial information and also closeout of year-end financial information. The Village plans to have this individual work with the external auditors during the upcoming year so that certain analyses and related all year-end adjusting entries can be made by this individual. This individual will also review all draft financial statements and notes to assure the financial statements are presented in accordance with applicable accounting principles.

Village of Capac
St. Clair County, Michigan

SCHEDULE OF FINDINGS - CONTINUED

For the Year Ended June 30, 2007

FINDINGS/NONCOMPLIANCE - CONTINUED

Significant Deficiencies Related to Internal Control Over the Basic Financial Statements - Continued.

2007-2 Internal Controls Over Utility Billings and Collections

During our analysis of the internal control structure over utility billings and collections, we noted that the Village Clerk is involved in all aspects of the operation (i.e., enters usage information and prepares billings, collects utility receipts, posts payments and adjustments to customer accounts, etc.). This structure does not provide adequate internal controls due to the fact that one individual has the ability to process all aspects of a transaction. We did note that the Deputy Clerk also is involved in collecting utility receipts on certain days.

We recommend the Village review the internal control structure and procedures related to utility billing and collections to determine if there are any changes that could be made to strengthen the internal controls.

CORRECTIVE ACTION RESPONSE

The Village is currently in the process of updating certain components of the utility billing processes (i.e., meter reading and automated entry of information in to the billing records). During this process, the Village will analyze duties of all employees related to the utility billing and collection process and will segregate duties as much as is possible with the limited staffing and resources.

Findings Related to Compliance with Requirements Related to the Basic Financial Statements.

2007-3 Expenditures in Excess of Appropriations

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated. This issue was noted in the General Fund and Police Department Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Council shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend that the Village management monitor adopted budgets against actual expenditures and make adjustments as appropriate throughout the year.

CORRECTIVE ACTION RESPONSE

The Village plans to review budgeted and actual expenditures more frequently (especially near year-end) to assure that actual expenditures do not exceed budgeted amounts. Appropriate budget amendments will be prepared and approved by the Village Council as needed.

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Village of Capac
St. Clair County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2007

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the General Purpose Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to the General Purpose Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings noted.

Principals

Dale J. Abraham, CPA
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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

As you know, we have recently completed our audit of the records of the Village of Capac, Michigan as of and for the year ended June 30, 2007. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should review procedures to assure that utility billing records are complete.

During our analysis and testing of the utility billing process, we noted that we could not locate any documentation on file to support the size and type of pipe for metering purposes for each customer as a means to test the accuracy of the rate being charged. This information is entered into the billing system by the Village Clerk as instructed by the DPW, but there is no permanent record maintained on file to back up the information in the billing system.

We suggest the Village review procedures related to utility billing and consider maintaining documentation on file to support the type and size of pipe used for metering purposes.

2. The Downtown Development Authority (DDA) should assure that all detail records related to tax captures are obtained from the applicable taxing unit.

During our analysis of the DDA tax revenues, we noted that the DDA received very little information from the taxing units to support the amount of taxes that were captured on their behalf. Mainly the only documentation on file was a worksheet or memo provided by the taxing units detailing the amounts captured and remitted to the DDA.

We suggest the DDA obtain more detailed information from the taxing units related to their tax revenues (i.e., taxable value information, copies of tax rolls, recapture amounts, etc.) to assure that all amounts remitted by the taxing units are accurate.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated December 17, 2007.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Capac and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 17, 2007